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E.O. 12958: DECL: 03/19/2017

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SUBJECT: RUSSIA AND JAPAN SEEK TO ADVANCE ECONOMIC TIES

REF: TOKYO 1025

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 (b,d)

11. (SBU) Summary. Russian Prime Minister Mikhail Fradkov's February visit to Japan included visits with Japan's top leaders and centered on economic issues, especially trade. Japanese officials noted a new openness in their Russian counterparts and speculated that Prime Minister Putin's recent speech calling for a shift toward more value-added industries had been taken to heart. Discussion topics included energy, transportation and information technology (IT), and a number of memoranda of understanding (MOUs) were signed. Russian and Japanese leaders appear to have made a conscious decision to sideline discussion of political issues, such as the Northern Territories, in favor of promoting economic development. End summary.

Russian PM,s Visit Includes Top Japanese/Russian Leaders

12. (SBU) On March 15 Ministry of Foreign Affairs Russia Division Principal Deputy Director Nakamura gave Econoff a readout of Russia,s Prime Minister Mikhail Fradkov,s official visit to Japan during February 27-28. While in Tokyo Fradkov met with Emperor Akihito, Prime Minister Shinzo Abe, Minister of Foreign Affairs Taro Aso, Minister of Finance Koji Omi, Minister of Economy, Trade and Industry Akira Amari and Chairman of the House of Representatives Yohei Kono. In addition, Fradkov had a breakfast meeting with members of Nippon Keidanren, including Chairman Fujio Mitarai, and attended the Japan-Russo Investment Forum.

13. (SBU) Fradkov was accompanied by Minister of Industry and Energy Viktor Khristenko, Minister of Transport Igor Levitin, Minister of Information Technology and Communications Leonid Raiman and Presidential Envoy of the Far Eastern Federal District (Minister-level) Kamil Iskhakov. Representatives of Russian's top ten companies also participated in the visit.

Economic Issues Top Priority

14. (SBU) Nakamura noted that the visit primarily dealt with economic not political issues and stressed he believes the dialogue with Japan is likely to continue into the next Russian administration. He observed that this visit provided a new setting for Prime Ministers Abe and Fradkov. Abe is keen to improve various bilateral relations and doing so with

Russia would follow on the heels of better relations with China and South Korea. Nakamura added that Foreign Minister Aso likely will go to Moscow for a follow-up visit to work on political issues such as the Northern Territories, which were not raised during this visit. No date has been set for Aso's trip but Nakamura surmised it likely would be Golden Week in early May.

Russians Show New Openness Toward Japan

15. (SBU) Nakamura commented that one month before this visit, Russian President Vladimir Putin made a speech before Russian industrial leaders in which he called on the Russian economy to shift from its current heavy dependence on crude oil and natural gas exports to more sophisticated value-added industries. Nakamura posited that this message had penetrated the Russian bureaucracy and lay behind the less arrogant, more open nature of the Japan visit. He observed that the Russian leaders were well prepared for the trip and had openly invited Japanese investment.

Energy Discussions Include LNG, Nuclear Energy

16. (SBU) Nakamura told Econoff the GOJ emphasized to the Russian government the importance of liquefied natural gas (LNG) to Japan. The Russians confirmed that they want to be a major global energy supplier and to reassure consumers that contractual responsibilities will be honored. The Russians also confirmed that the East Siberian pipeline construction is progressing on schedule. (See reftel for further comment.)

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17. (SBU) Asked about nuclear energy discussions, Nakamura said the two countries had agreed to begin negotiations on a comprehensive nuclear energy treaty in April, including nuclear material imports. He added that many difficulties exist between the two countries, however. Japan and Russia have very different nuclear energy policies partly because Japan is a member of the International Energy Agency (IEA) and must allow IEA inspections while Russia, as a non-member, is under no such obligation. Nevertheless, Nakamura opined that the Russian government is keen to promote its nuclear industry, and Japanese private companies -- notably Mitsubishi, Hitachi and Toshiba -- are increasingly interested in doing business with Russia.

Transportation, IT Key Topics for Russians

18. (SBU) Transportation was a major topic of conversation, said Nakamura. Russia recognizes the need to improve the aviation and railway sectors, both physically with new planes and trains and through an increase in the number of flights between the two countries. Previously, Russia had sought German high-speed train technology but recently the focus has shifted to Japan's bullet train technology, according to Nakamura. The Russian government also wants to improve the road infrastructure in the Russian Far East and has admitted that even in urban areas the infrastructure is insufficient. Russian Railway President Vladimir Yakunin, a former KGB officer, will visit Japan to invite Japanese businesses to work on the Siberian railroad system project, Nakamura said. He also related that Toyota Corporation has expressed interest in the railroad project, probably because Toyota could ship auto parts faster and more cheaply via a trans-Siberian railroad system from the Pacific Coast to Russia, west than it can by ship, as the company must do at the moment.

19. (SBU) In information technology (IT) Russian strength lies in its software, according to Nakamura, while Japan's lies in hardware, i.e. 3G mobile phones and broadcasting systems. He said the two countries agreed to promote exchanges and

cooperation through inter-government meetings.

Variety of MOUs Signed

¶10. (SBU) During the visit a total of 15 documents were signed including five inter-governmental papers, according to Nakamura. The first was a memorandum of understanding (MOU) to reorganize the Trade and Economic Inter-Government Commission Subcommittee, which is designed to enhance cooperation and exchanges between local governments, such as Hokkaido and Sakhalin, in order to improve economic ties. The second document calls for enhancing disaster prevention and preparedness in case of earthquakes, volcanic eruption and tsunamis through the exchange of information and data. Nakamura commented that Japan believes this cooperation will help lead to a resolution of the northern territory dispute. The third MOU concerns expanding Japan-Russia trade and cooperation (see para 11), the fourth is a customs cooperation treaty for exchanging information, and the fifth is an agreement to enhance research cooperation on such instruments as radios.

¶11. (SBU) Other documents signed during the visit included a contract for a loan from Japan Bank for International Cooperation (JBIC) to foreign banks, an agreement between Japanese financial institutions and Russian banks concerning loans for the Sheremetyevo Airport, and an MOU to promote business between Japan,s JETRO and the Russian Union of Industrialists and Entrepreneurs.

METI Focused on Trade and Investment Cooperation

¶12. (SBU) In a separate meeting on March 13, Ministry of Economy, Trade and Industry (METI) Trade Policy Bureau Russian Office Assistant Director Masayuki Uesugi outlined the background leading up to the signing by METI and Russia,s Ministry of Economic Development and Trade (MEDT) of the MOU on expanding trade and investment cooperation

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between the two countries. According to Uesugi, the two ministries had planned to sign the document during the first Japan-Russia Investment Forum in St. Petersburg in September 2006, but were unable to finalize the text. A second forum was held during Prime Minister Fradkov,s visit to Tokyo and this time working-level officials at the two ministries were able to work out their differences. The ministries had hoped that METI Minister Amari and MEDT Minister German Gref would sign the document but Gref did not accompany Fradkov to Japan. Ultimately, the MOU was signed by Russian Trade Representative Aleksandr Lavrentyev and Trade Policy Bureau Director General Masakazu Toyoda because METI Vice Ministers Takao Kitabata and Toshiaki Kitamura were both away.

Absence of MEDT Minister Gref

¶13. (C) Uesugi theorized that Gref did not come to Japan because with Energy Minister Khristenko planning to come it was unnecessary to have two economic Ministers. (Comment: A more likely explanation for Gref,s absence is that energy remains the priority in Russia, especially energy technology. Gref advocates FDI, a less pressing issue for the Russian government at the moment because Japanese automakers have already indicated interest in investing in Russia. End comment.)

Russia Focus on Air, Sea; Japan Focus on Autos

¶14. (SBU) Asked where Russian business interests lie vis--vis investments in Japan, Uesugi had no concrete answer but suggested that Russian securities firms likely would be

top of the list. He echoed Nakamura's contention that another possibility is Russia's airline companies because the Russian government has already indicated interest in increasing both the routes and the frequency of airline flights. Uesugi also suggested firms involved with ports and ships would be interested in investing in Japan.

¶15. (SBU) As for Japanese investment in Russia, Uesugi told Econoff that Toyota will start auto production in December, and Nissan and Suzuki also are investing in the Russian market. Japanese auto parts subsidiaries such as Denso Corp. have already established offices in St. Petersburg. In addition, Japanese construction machinery and electric appliances companies also have investments in Russia. (Note: Press reports indicate that Japanese companies are proceeding cautiously, however, in light of several recent incidents involving Japanese companies. Russian oil and gas monopoly Gazprom recently took over control of the Russian oil and gas project Sakhalin 2 in which Mitsui & Co. and Mitsubishi Corp. had a 45 percent interest; the Japanese firms' holdings have been reduced by half. Japan Tobacco is in a court battle in Moscow over charges that it attempted to evade tax payments and Matsushita Electric Industrial was abruptly told late last year to cease doing business with a major Russian mass retailer. End note.)

Japan, Russia Formalize Trade Investment Promotion

¶16. (SBU) Uesugi told Econoff that in order to support trade between the two countries, the Japanese and Russian governments have established the Japan-Russia Trade Investment Promotion Organization. Within this organization, the Japan External Trade Organization (JETRO), the Japan Association for Trade with Russia and Central and Eastern Europe (ROTOBO), and the Japan Center will support Japanese companies, while a working group made up of officials from all of the Russian economic ministries and Russian trade representative offices in Japan will provide assistance to Russian companies. The main purpose of the organization, according to Uesugi, is to give out information, hold consultations, and resolve disputes. The Trade Investment Promotion Desk -- or TIP Desk -- is the point of contact within the organization.

A Good Visit but Nothing New on the Table

¶17. (C) Overall, Nakamura and Uesugi were pleased with the
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way the visit had gone. Nakamura noted that the visit had been pulled together in a very short amount of time because the Russians had been very inflexible on dates. Both of them dismissed the idea that Russia brought anything to the table other than energy despite Putin's call for a new direction. They clearly viewed Russia as an opportunity for Japanese investment but saw little reciprocity.

Comment

¶18. (C) Russian and Japanese leaders appear to have made a conscious decision to sideline discussion of political issues, such as the Northern Territories, in favor of promoting economic development. This strategy marks a major reversal from previous tactics, when Tokyo sought to use economic pressure to force concessions from Moscow. Though the present policy de-links economic and political issues, MOFA believes that the positive resolution of economic problems promotes the kind of overall positive relationship that will ultimately lead to resolution of the territories dispute. The Russian Premier's visit, like Vice Foreign Minister Shotaro Yachi's January 2007 trip to Moscow, signals a continuing warming trend, largely because the contentious political discussions are being ignored.

¶19. (C) The agreements signed during the visit, while indicative of the potential for progress on the economic side of the relationship, highlight the areas of possible cooperation but do not appear to involve much in the way of substantive interests from either country. Real progress will depend on the dynamic among the interested Japanese and Russian businesses, where the "devil in the details" of each individual deal will determine the degree of actual progress.
SCHIEFFER